What Do Potato Chips and Investment Fees Have in Common?

Both of my parents were educators in a small town called Wytheville in southwest Virginia. Our family could not afford luxurious vacations on their salaries, so pretty much the only vacations we took were to visit family. My dad grew up in Iowa and is an avid Cardinals fan, so a couple of summers we took the long trek to Burlington, Iowa to visit grandma and then to St. Louis to watch the Redbirds play.

My father had one other love in the midwest besides the Cardinals: **Sterzing's potato chips**. You can get them in Iowa and nowhere else! On our trips out there, we would load up the family station wagon with bags of this crispy, salty goodness.

Sterzing's potato chips had a flavor we had never tasted anywhere else. **What could make these chips so flavorful and different?**

Many years later we found out…trans fat! These chips were LOADED with them.

Growing up, we had **no idea** what trans fat was. It wasn't until years later scientific research discovered the negative impacts of consuming large amounts of trans fat. Eventually, the government mandated that trans fat was properly labeled so that we could better understand what we are eating.

So what does any of this have to do with the fees you pay in your 401(k) or in your retirement account?

Everything!

First off, many investors have no clue what fees are in their investment lineup, just like me as a kid with those trans fat soaked chips! **Financial institutions have done a stellar job of hiding these fees for years.** Increased regulations have mandated more transparent fees, although we still have a long way to go!

Here is a quick breakdown of some of the more common investment-related fees you will see:

Mutual fund expense ratio: These fees are "built-in" to the cost of the fund you own, so you almost never see the fee as a line-item debit on your statement. The best way to determine this fee is to type in the ticker symbol found on your statement into Morningstar, Google Finance, or another financial site. Some of the more common fees you will see built into this expense ratio are:

- **Management fee:** This pays for the fund manager(s) who oversee and make portfolio decisions.

- **Distribution and Service 12(b)1 fees:** This fee is "trail" commission that goes to the firm of the advisor who recommended the fund to you

Administration fees: These fees could include costs to mail prospectuses or staff a call center.

- **Advisory fees**: These fees are the most transparent and you will see them on your monthly or quarterly statement. These fees are paid to the firm of the advisor to cover the fees of managing the portfolio and other services the advisor provides to you.

- **Revenue Sharing**: These fees are often built into the "other" category. They are fees sent to a brokerage firm or another entity from the fund company, and are often found in a fund recommended by an advisor, or in your 401(k) plan at work. Let's stop and think about this for a second. You are paying a fee so that the brokerage company your advisor partners with can get additional revenue from the fund company he/she recommends. That sounds a lot like trans fat in a 1980's potato chip…

The list could go on and on – depending on what type of account you have.

- Account maintenance fees, plan administration fees, mortality and expense charges, annuity rider fees…

You deserve a financial advisor who will educate you about all of the fees and not hide them from your sight.

Fund expenses should never be the only factor when deciding how you invest. But it should be a large consideration since higher expense ratios often result in under-performance.

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We believe education and proactive decisions are cornerstones to a confident financial future. We would be honored to meet with you for an initial conversation to talk about what is truly important to you. To schedule a meeting, please click here:

PS: The Sterzing's potato chip company was able to change the recipe and is still in business today! Load up your station wagon with some crispy goodness!

For more information about revenue sharing agreements you can visit this Kiplinger article.

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